

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY ENVIRONMENTAL FINANCIAL ADVISORY BOARD

September 28, 2001

Honorable Christine Todd Whitman
Administrator
U. S. Environmental Protection Agency
Washington, D.C. 20460-0001

Dear Administrator Whitman:

We are very pleased to provide you with a report of the Environmental Financial Advisory Board (EFAB) entitled, "*Conservation Savings Increment Loans: A Proposal Concerning The State Revolving Funds.*" The report's principal author is Robert Lenna, EFAB's Chair and the Executive Director of the Maine Municipal Bond Bank. The Bond Bank manages both the Drinking Water and Clean Water State Revolving Funds for Maine.

The President's National Energy Policy report issued in May 2001 laid out a long-term comprehensive strategy for using technology to produce an integrated energy, environmental, and economic policy. The report advocated modernizing conservation and infrastructure, increasing energy supplies (including renewables), accelerating environmental protection and improvement, and increasing energy security.

After release of the report, EFAB began to examine ways in which existing environmental facilities, programs, and activities might be improved to better support the goals of the President's plan. The Board identified energy conservation improvements at municipal drinking water and wastewater systems throughout the country as a fruitful area. Such systems use approximately 35 percent of the energy consumed by the local governments.

Following careful study and thought, the Board believes that EPA's highly successful Drinking Water and Clean Water State Revolving Fund programs could, and should, be mobilized to help finance significant energy conservation improvements at drinking water and wastewater systems nationwide. These two State Revolving Fund programs make loans for environmental purposes to these systems at interest rates as low as zero percent.

EFAB recommends that these programs be authorized to make what it terms "conservation savings increment loans" to local systems for a number of purposes. For example, such loans could support the studies needed to identify energy conservation opportunities. The loans could also be used to support the purchase and installation of energy saving equipment and/or co-generation technologies.

Local systems might then be able to use the cash flow savings garnered from the energy conservation activities to help pay back the loan in part, if not in whole.

EPA's own *Energy Star* program could be another important source of information, technical assistance, and support for energy saving options. The Agency should consider expanding the program to explicitly include drinking water and wastewater systems as a priority focus. In addition, many wastewater and drinking water systems have in recent years conducted energy audits as a cost cutting measure. Their experiences would serve as a useful blueprint to help identify worthwhile energy conservation projects.

The Board believes that a major part of these proposed activities could be undertaken within your current statutory powers based on the exercise of your discretion over the State Revolving Fund programs under the eligibilities and activities of the Clean Water and the Safe Drinking Water Acts. Some actions might require amendments to either or both of these Acts. EPA's Office of Water and Office of the General Counsel could undertake a review all relevant authorities. Finally, EFAB believes that as with most activities under EPA programs, providing states the greatest latitude possible in structuring state designed ways to meet national goals would provide the greatest opportunity for success.

The Board is prepared to assist EPA in developing and supporting such an environmental conservation increment loan initiative however it can consistent with its charter. We hope you find the report constructive and we are available to discuss its findings and recommendations. EFAB appreciates the continuing opportunity to support the Agency and the Administration in these important efforts.

Sincerely,

/s/

Robert O. Lenna
Chair

/s/

A. Stanley Meiburg
Executive Director

Enclosure

cc: Linda Fisher, Deputy Administrator
Tracy Mehan, Assistant Administrator for Water
Robert E. Fabricant, General Counsel
Michael W. S. Ryan, Deputy Chief Financial Officer
Joseph L. Dillon, Comptroller

